

# California's State Budget

CALEEFORNEEYA

by Rex Babin



*Daniel J.B. Mitchell*  
*March 24, 2009*

# California's State Budget

CALEEFORNEEYA

by Rex Babin



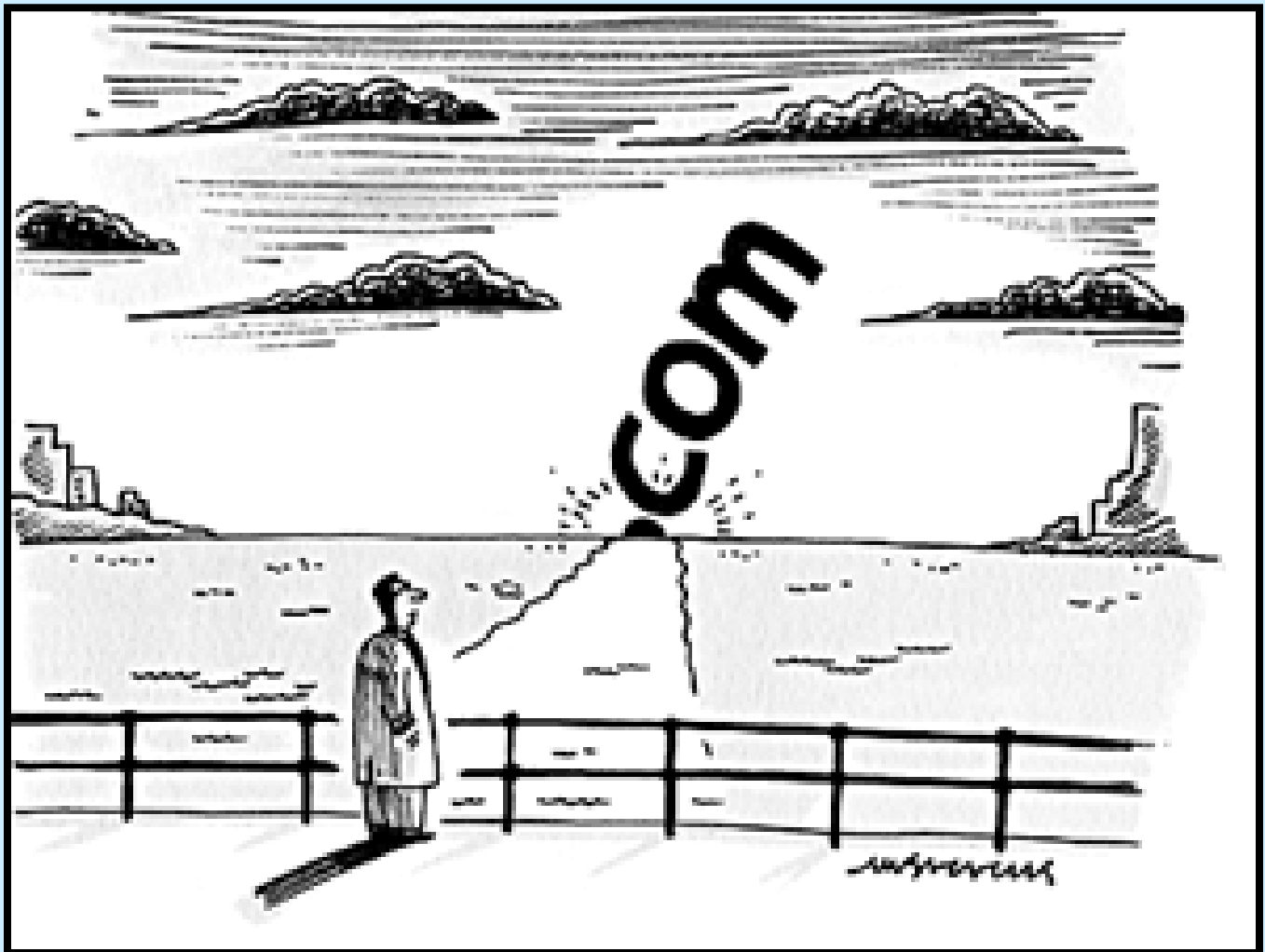
*Daniel J.B. Mitchell*  
*March 24, 2009*

# California's State Budget



*March 24, 2009*

# Or did we know?





# Or did we know?



# supposed to be Repetition is a teacher



*Is the current budget crisis  
an unpleasant surprise?*



**Two scenarios**

**Did the budget problem  
just creep up when no  
one was looking?**



**Bird Scenario**





**Or did we really know  
what was happening?**



***Casablanca  
Scenario***



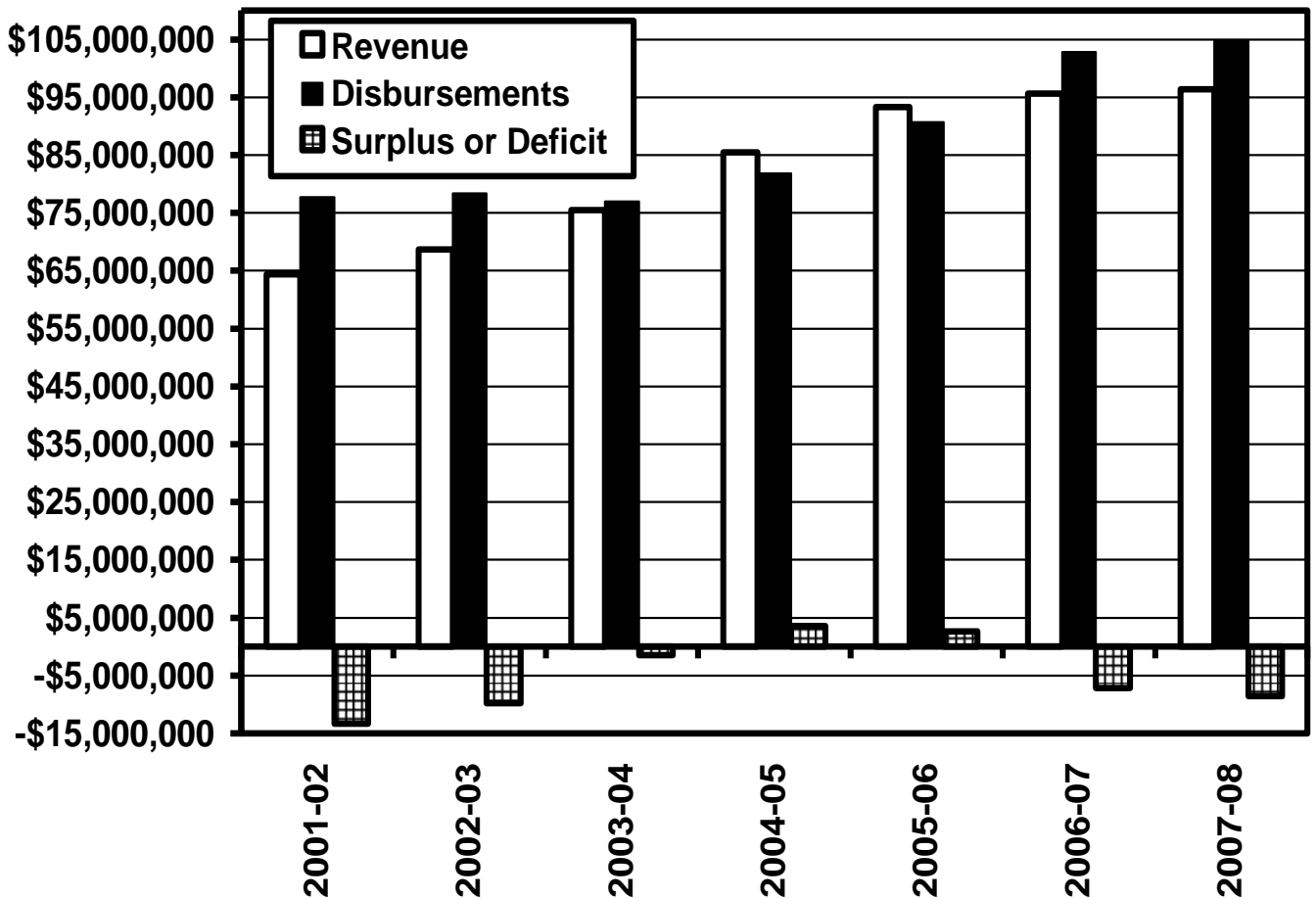
# Or did we really know what was happening?



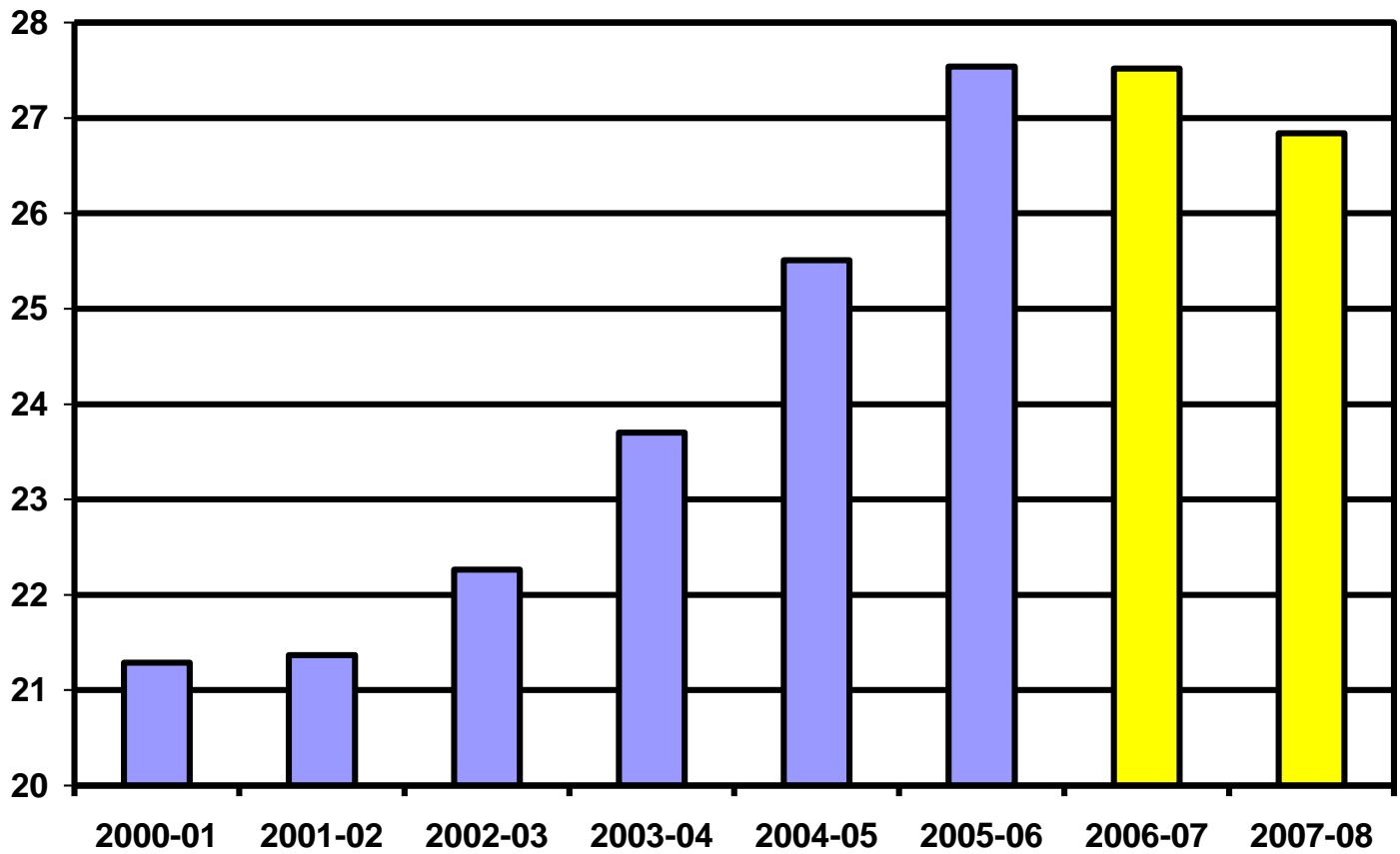
# *Looking Backwards Before the 2008-09 Crisis*



**Adjusted Cash Statement (\$000)**



## California Sales Tax: \$Billions



Brant Ward / The Chronicle





March 26, 2007



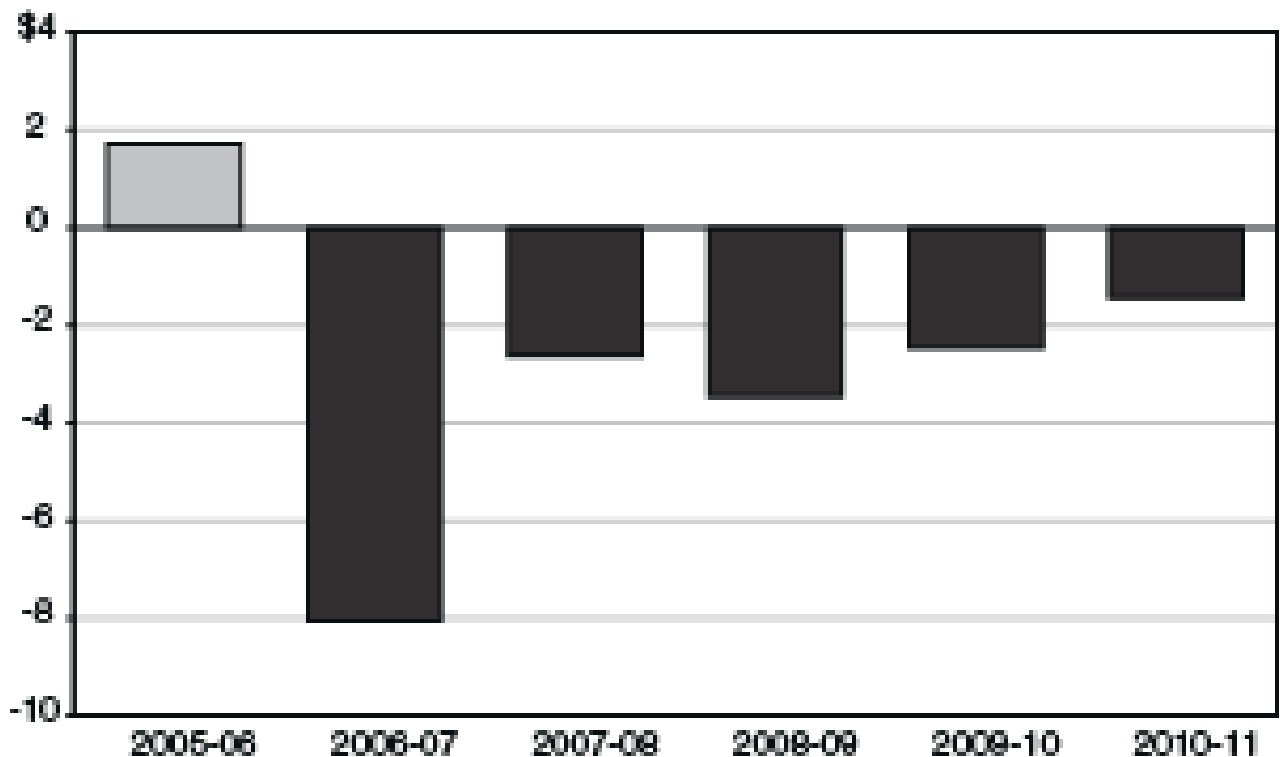
# LAO Projections as of mid-Feb. 2007



## Deficits

### Significant Operating Shortfalls<sup>a</sup> Would Remain

General Fund (In Billions)



<sup>a</sup>Annual revenues minus expenditures. Legislative Analyst's Office estimate of Governor's revenue and expenditure policies.

**When you are at the  
peak, you can't fall up**



# L.A. UNLEASHED

ALL THINGS ANIMAL IN SOUTHERN CALIFORNIA AND BEYOND

## Stone-throwing Santino the chimp shows apes can carry out plans

7:35 PM, March 9, 2009

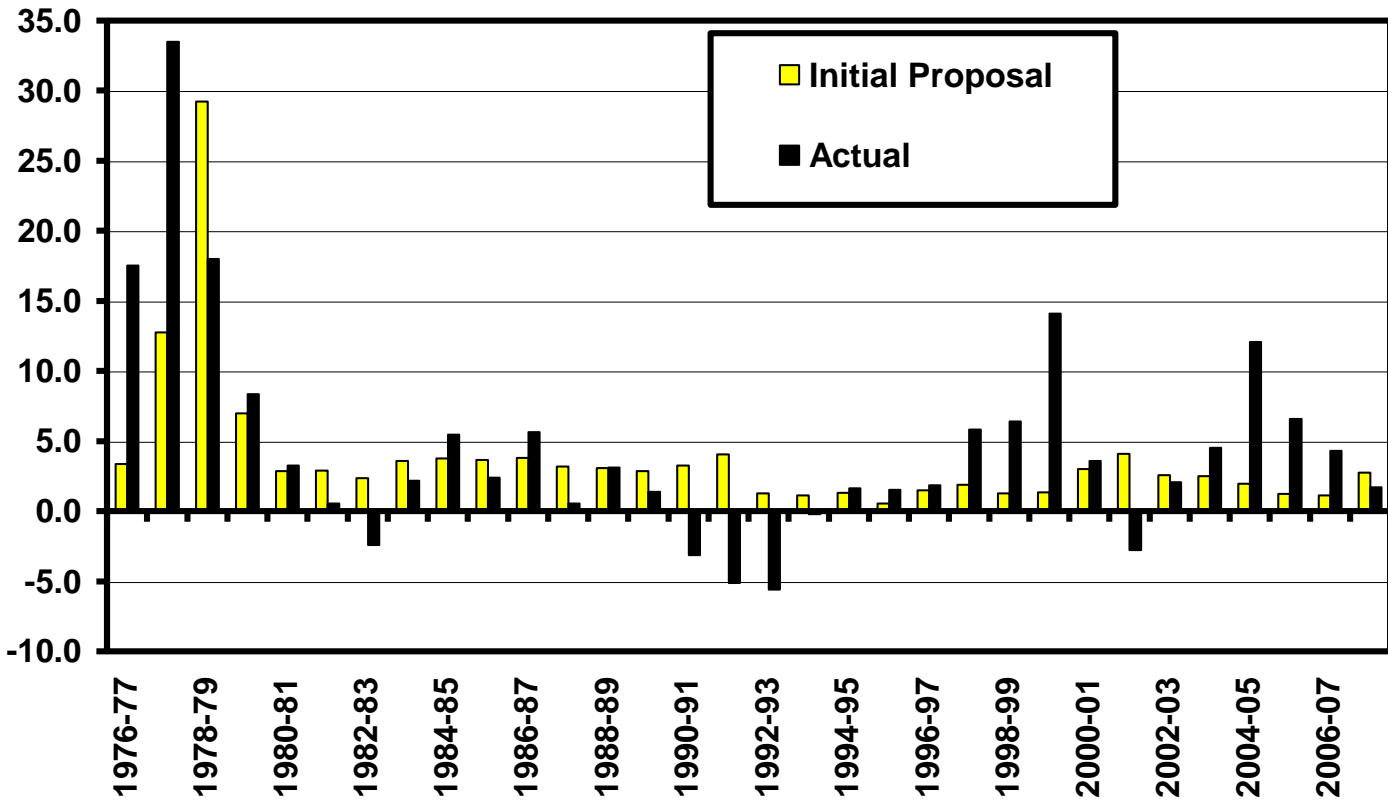


A chimpanzee named Santino has shown researchers that the great apes can plan ahead and execute carefully plotted maneuvers. Santino, the alpha male chimp at Sweden's Furuvik Zoo, planned rock-throwing attacks against zoo visitors, which shocked zoo staff and fascinated scientists.



# Trouble Ahead?

**Initial Proposal and Actual Result:  
FY General Fund Reserves as % of Expenditures**



**Over 32 years:**

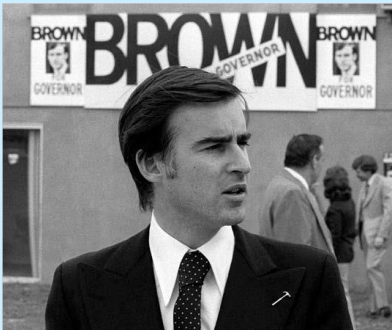
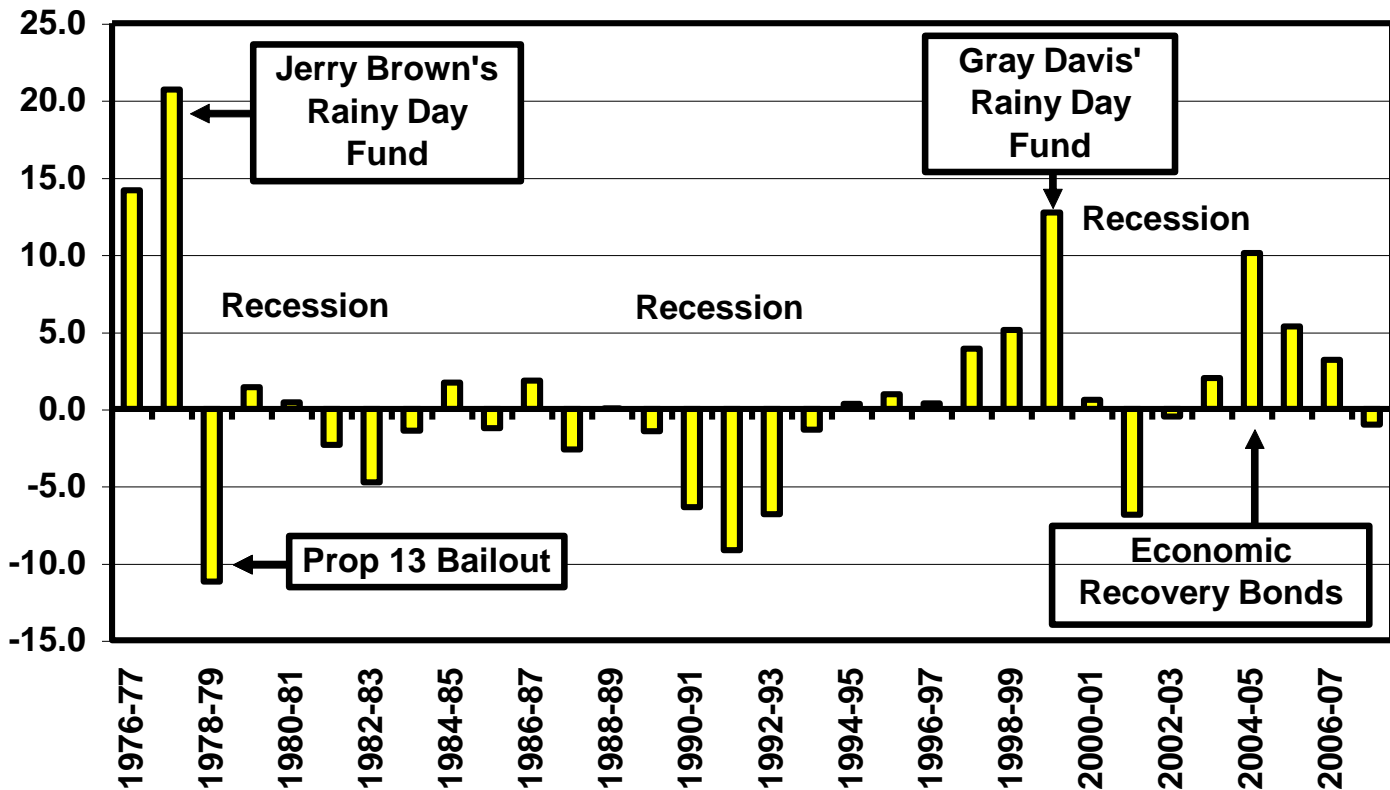
**Average: 0.9% underestimate**

**Median: 0.3% underestimate**

**Note: Some underestimates  
due to later borrowing to  
raise reserve.**



## Actual - Initially Proposed GF Reserve as % of Expenditures



**In recessions, we tend to overestimate.**



# State Budget 101





# State Budget 101

## *Transparency*

- On the web?
- Promote understanding?







# State Budget 101

## *Transparency*

- On the web? (Grade A)
  - Promote understanding?
- Depends on definitions**

California Home Department of Finance Governor's Web Site Department Index Site Map Help Thursday, October 23, 2008

Welcome to California's

## GOVERNOR'S BUDGET 2008-09

Enacted Budget Summary

**Home**

Enacted Budget Summary

Summary Charts  
Revenue Estimates  
Major Program Areas

**Enacted Budget Detail**

K thru 12 Education  
Higher Education  
Health and Human Services  
Corrections and Rehabilitation  
Business, Transportation & Housing Resources  
Environmental Protection  
State and Consumer Services  
Labor and Workforce Development  
General Government  
Legislative, Judicial, and Executive

**Budget References**

**eBudget Search**



We want to know what you think!  
Please send an e-mail with questions, comments, and/or concerns regarding this website to:  
[ebudgetwebmaster@dof.ca.gov](mailto:ebudgetwebmaster@dof.ca.gov)

**Enacted Budget Summary**

The Enacted Budget Summary reflects the state spending plan passed by the Legislature and signed by the Governor. The Enacted Budget Summary provides [Summary Charts](#), [Revenue Estimates](#), Enacted Budget Summary information for selected [Major Program Areas](#), and veto messages.

[Budget Overview](#)  
[Printable Budget Documents](#)

 To access the entire Enacted Budget Summary document (including veto messages) in a printable format (pdf), click here:  
[Enacted Budget Summary - All Chapters](#) (pdf \* - 1052K)

**BUDGET OVERVIEW** [Back to Top](#)  
[Introduction](#)

The 2008 Budget Act resolves the \$24.3 billion budget deficit identified in the May Revision. It provides a modest reserve of \$1.7 billion this year, but projects a deficit of \$1.0 billion in 2009-10. While this budget does not resolve the state's persistent structural budget deficit, it includes a historic budget reform measure that puts California on the path to fiscal stability and avoids borrowing from local governments or transportation funds.

 Go to the [Enacted Budget Detail](#) web pages.

**PRINTABLE BUDGET DOCUMENTS** [Back to Top](#)  
[Enacted Budget Summary - All Chapters](#) (pdf \* - 1052K) -  
Provides the entire Enacted Budget Summary in pdf format. Veto messages are included at the end of this printable document.

[Back to Top of Page](#)

 **Adobe Reader** pdf\* This file requires the latest Adobe Acrobat reader plugin. If you do not have it - [click here](#) to download.

© 2008 State of California. [Conditions of Use](#) [Privacy Policy](#)



# State Budget 101

## *Transparency*

### Promote understanding? Depends on definitions

- Cash Statement Definitions from Controller Especially with Regard to “Borrowable Resources”
- Budget Definitions from Dept. of Finance and Legislative Analyst’s Office

California  
Home  
Enacted  
Summary  
Revenue  
Major Projects  
Enacted  
K thru 12  
Higher Education  
Health and Human Services  
Corrections  
Business and Economic Development  
Resources  
Environment and Natural Resources  
State and Local Government  
Labor and Industrial Relations  
General  
Legislative  
Budget

#### eBudget Search



We want to know what you think!  
Please send an e-mail with questions,  
comments, and/or concerns regarding  
this website to:

[ebudgetwebmaster@dof.ca.gov](mailto:ebudgetwebmaster@dof.ca.gov)

#### BUDGET OVERVIEW [Back to Top](#)

##### [Introduction](#)

The 2008 Budget Act resolves the \$24.3 billion budget deficit identified in the May Revision. It provides a modest reserve of \$1.7 billion this year, but projects a deficit of \$1.0 billion in 2009-10. While this budget does not resolve the state's persistent structural budget deficit, it includes a historic budget reform measure that puts California on the path to fiscal stability and avoids borrowing from local governments or transportation funds.



Go to the [Enacted Budget Detail](#) web pages.

#### PRINTABLE BUDGET DOCUMENTS [Back to Top](#)

##### [Enacted Budget Summary - All Chapters](#) (pdf \* - 1052K) -

Provides the entire Enacted Budget Summary in pdf format. Veto messages are included at the end of this printable document.

[Back to Top of Page](#)



This file requires the latest Adobe Acrobat reader plugin. If you do not have it - [click here](#) to download.

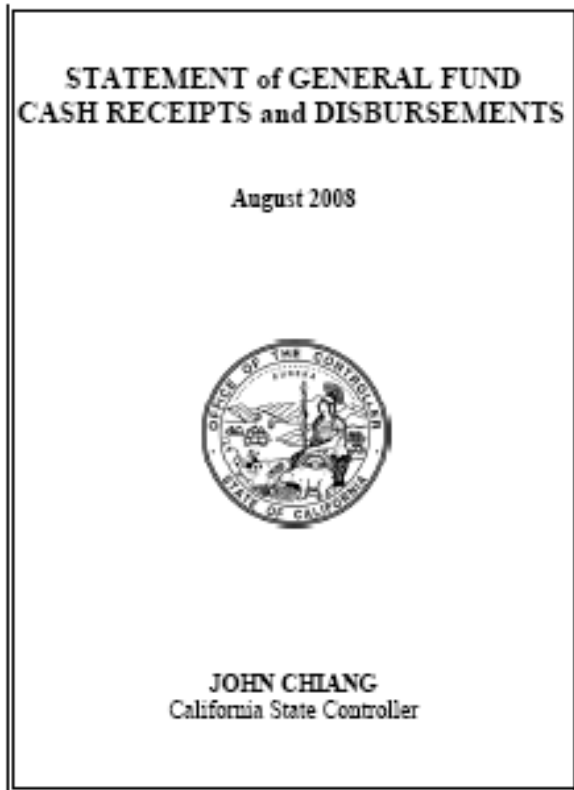
# **Lots of Other Funds Besides the General Fund:**

## *Examples*

- **Film California First Fund**
- **Bicycle Transportation Account**
- **Abandoned Watercraft Abatement Account**
- **Bureau of Thermal Insulation and Home Furnishings Fund**
- **California Collegiate License Plate Fund**



# Borrowable Resources



***Footnote (g) Additional funds of \$492 million were identified as borrowable and are included in the actual Available Borrowable Resources.***

**<http://www.sco.ca.gov/ard/cash/0809/aug.pdf>**

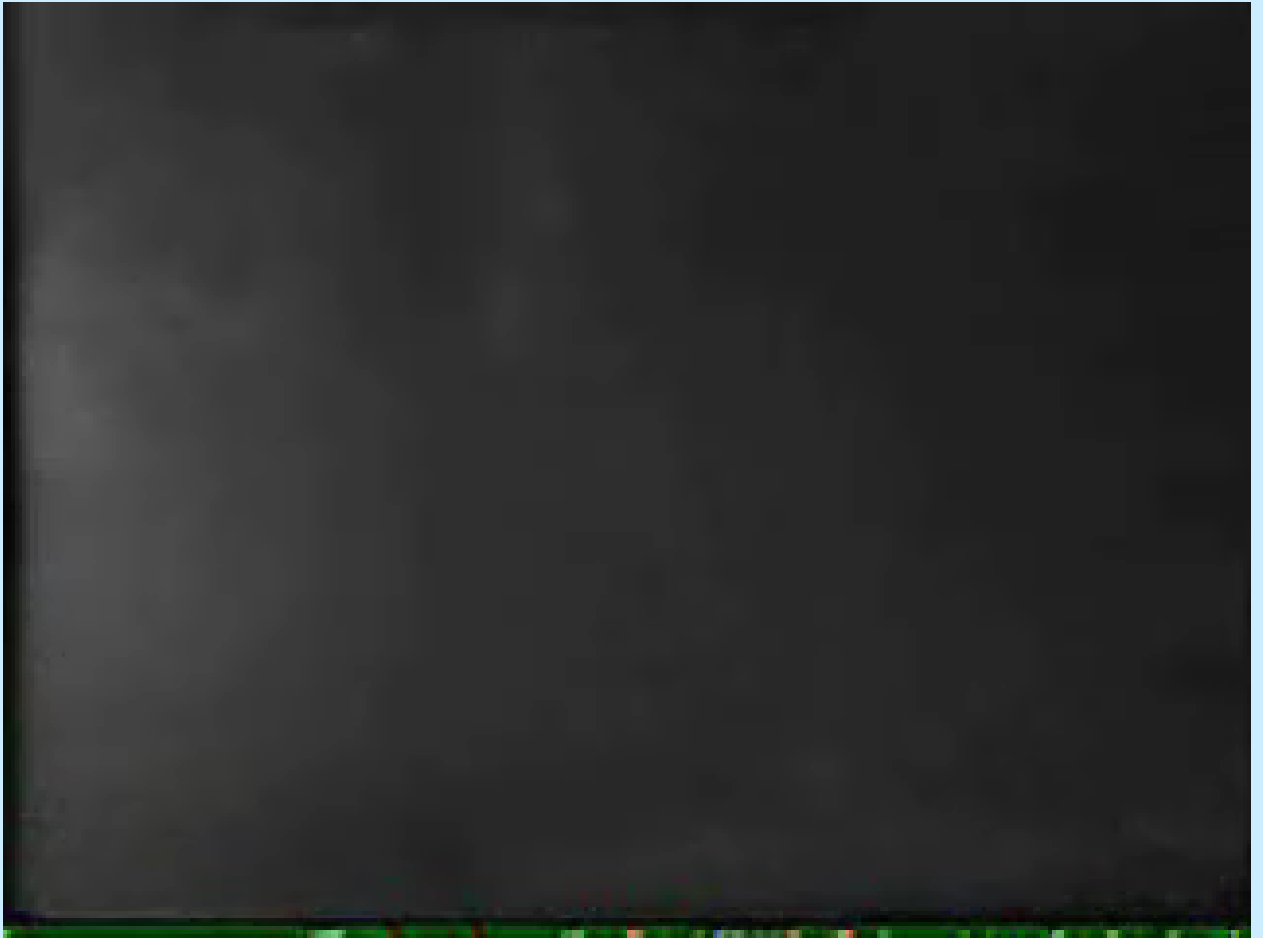




**August 2007**



***What is a “deficit”?***



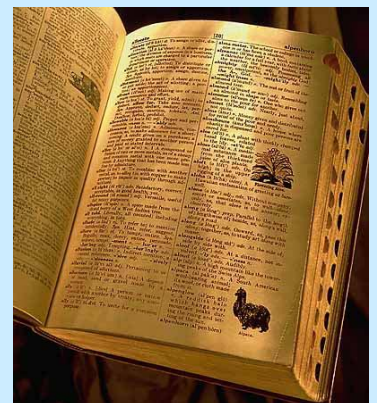
*Does it just mean no money left  
to spend?*



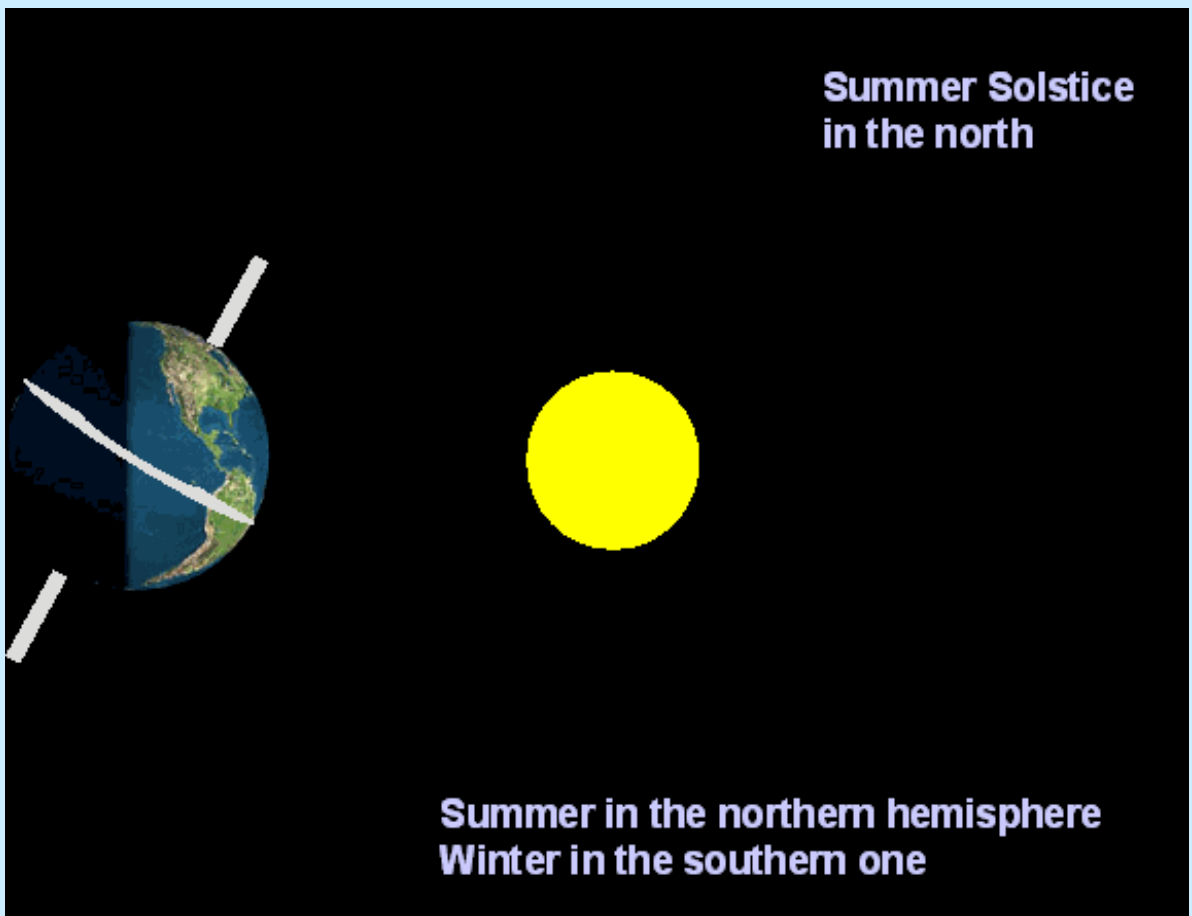
**“Deficit” should mean  
income less than  
expenditure (a flow concept)**

- *Income = taxes, fees, receipts from feds, interest earned on state funds, etc.*
- *Expenditure = state purchases (including wages), grants to other governments, transfers to individuals, debt service on state debt, etc.*
- *Usually, we refer to the “general fund” when we talk of the state budget deficit or surplus.*

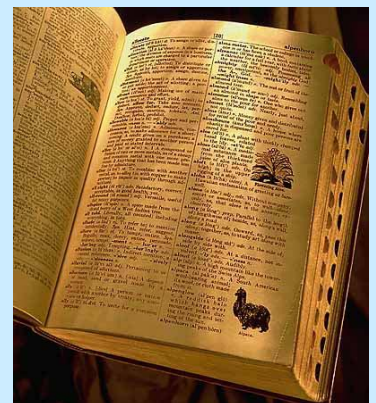
**GF = 75-80% of total budget**



**“Deficit” should mean  
income less than  
expenditure...**



**...during one year**





## Sin #1



*The term deficit in California-speak is often a confusing multiyear mix of stock and flow*

- **Past accumulated deficits in general fund (stock) plus**
- **Estimated current year's deficit (flow) plus**
- **Next year's deficit if we don't do anything (flow)**

# \$42 billion!



# \$42 billion!



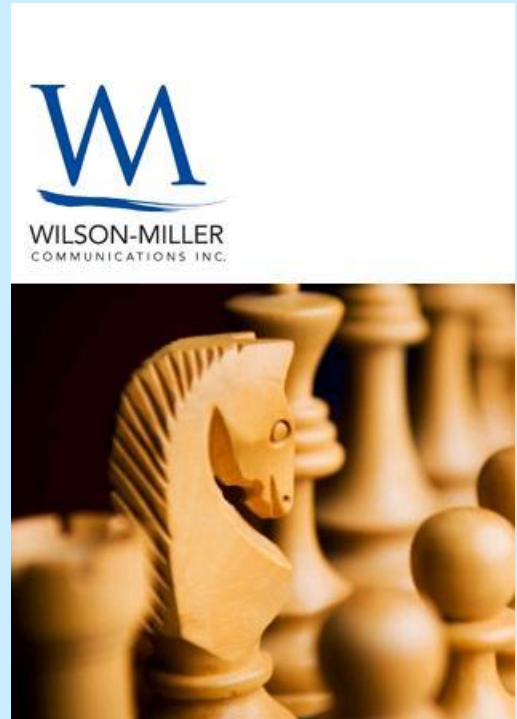
# **\$42 billion!**



**Relative to \$100 billion budget?**  
**NO!!**



# Julie Soderlund, spokesperson for governor and campaign for May 19, 2009 propositions



**Budget Reform Now**  
**Yes On Props 1A-1B-1C-1D-1E-1F**

**Larry Mantle, Airtalk,  
KPCC 3/12/09**



## Sin #2



*Moreover, borrowing and sales of assets are treated as revenue, often under the heading “revenue and transfers”*

## Sin #3



*Terms such as “shortfall,” “gap,” and “hole” - which have no definition at all - are often used to describe the budget, both by officials and the news media*



**Short Fall?**

**Long Fall?**







# Short Fall?

[LAT Home](#) | [Print Edition](#) | [All Sections](#)

**Los Angeles Times**

California | Local

[Crime](#)

[Education](#)

[Politics](#)

[Environment](#)

[Immigration](#)

[Traffic](#)

[O.C.](#)

You are here: [LAT Home](#) > [California](#) | Local

## California/Local

### Columnists:

- » [Steve Lopez](#)
- » [Sandy Banks](#)
- » [Hector Tobar](#)
- » [George Skelton](#)
- » [Dana Parsons](#)

### Community

#### Papers:

- » [Burbank](#)
- » [Newport Beach](#)
- » [Laguna Beach](#)
- » [Huntington Beach](#)
- » [Glendale](#)

## News/Opinion

[California](#) | [Local](#)

[National](#)

[World](#)



Paul Sakuma, Associated Press

## California budget faces new \$8-billion shortfall

Plunging revenue has already put the new budget plan out of balance, the state legislative analyst says. The news may complicate the bid to have voters OK special-election measures in May.

By Jordan Rau and Evan Halper  
March 14, 2009

Reporting from Sacramento -- The plan that Gov. Arnold Schwarzenegger and





# CapitolAlert

THE LATEST ON CALIFORNIA POLITICS AND GOVERNMENT

March 13, 2009

## Leaders react to latest budget gap

The legislative leaders who labored for weeks trying to find a way to patch the \$40 billion budget gap closed last month were quick to react today to LAO projections of a new \$8 billion hole.

Senate leader Darrell Steinberg even extended a special invitation to GOP gubernatorial hopefuls Steve Poizner and [Meg Whitman](#), who have been critical of the February budget deal.

### Assembly Speaker Karen Bass, D-Los Angeles

"Given the nation's continuing economic problems since we passed the budget, it is not surprising to see the state's revenue projections continue to fall. We must keep a careful watch on revenues during these volatile times, and all of us, Democrats and Republicans alike, must be prepared to continue to make tough decisions should the May Budget Revision also show significant declines in revenue. We also have to keep in our minds the potential that if the [ballot measures](#) fail on May 19th, the budget problem grows by another \$6 billion."

### Assembly Republican Leader Mike Villines, R-Clovis





# Holes





# Holes

## The Sacramento Bee CapitolAlert



### PM Alert: Another \$8 billion hole

*In case you missed it today:* The Legislature's budget analyst, **Mac Taylor**, declared today that the **immense package of spending cuts, new taxes and loans** aimed at closing the state's \$40 billion budget deficit will **fall short by \$8 billion** because the state's economy is continuing to falter.

The **legislative leaders who labored for weeks** trying to find a way to patch the \$40 billion budget gap were quick to react today to LAO projections of a new \$8 billion hole.

When it comes to **protecting children's interests, nobody scores 100 percent** in the California Legislature, according to the San Diego-based Children's Advocacy Institute.



AP Photo/David H. Kim

# Shortfall, gap, hole?

THE SACRAMENTO BEE [sacbee.com](http://sacbee.com) **Capitol Alert**

News | **Capitol & California** | Our Region | Sports | Living Here | Entertainment | Opinion | Ca

State Politics | State News | Furloughs | Prop 8 | Arnold | **Capitol Alert** | State Workers | Delta | Sierra | Blogs/Columni

Friday, March 13, 2009  **SEARCH**



## CapitolAlert

THE LATEST ON CALIFORNIA POLITICS AND GOVERNMENT

March 13, 2009

### Budget analyst sees new \$8 billion deficit

The Legislature's budget analyst, Mac Taylor, declared today that the immense package of spending cuts, new taxes and loans aimed at closing the state's \$46 billion budget deficit will fall short by \$8 billion because the state's economy is continuing to falter.

## Deficit?



# **Leg Analyst Uses “Surplus” and “Deficit” as a Stock in Media Conference of 3/13/09**

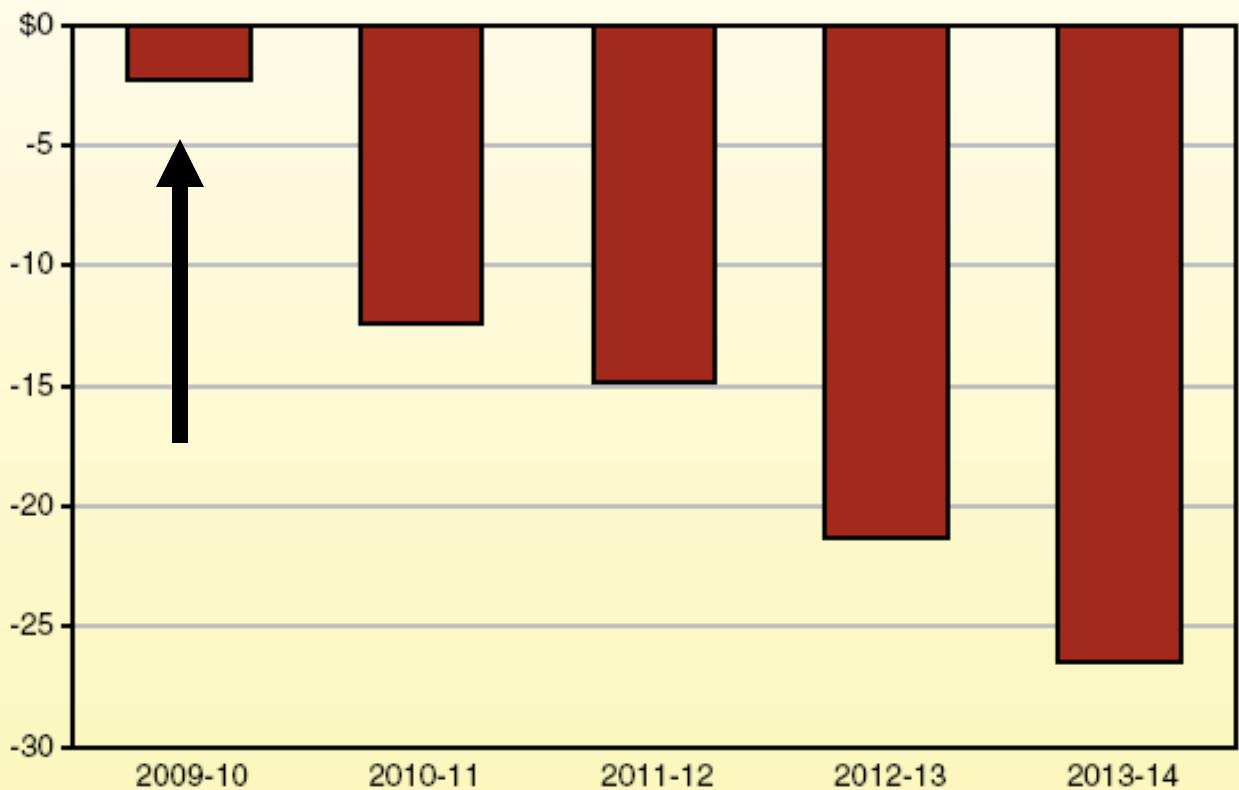


**He is talking about the projected  
*reserve* (stock concept) in the GF  
as of 6/30/10**

**His chart for that media conference shows a (flow) deficit of -\$2.5 billion for FY 2009-10...**

**Operating Shortfalls Projected to Grow Dramatically Throughout Forecast Period**

*General Fund (In Billions)*



**...but calls it a “shortfall.”**



## Groping for a Solution

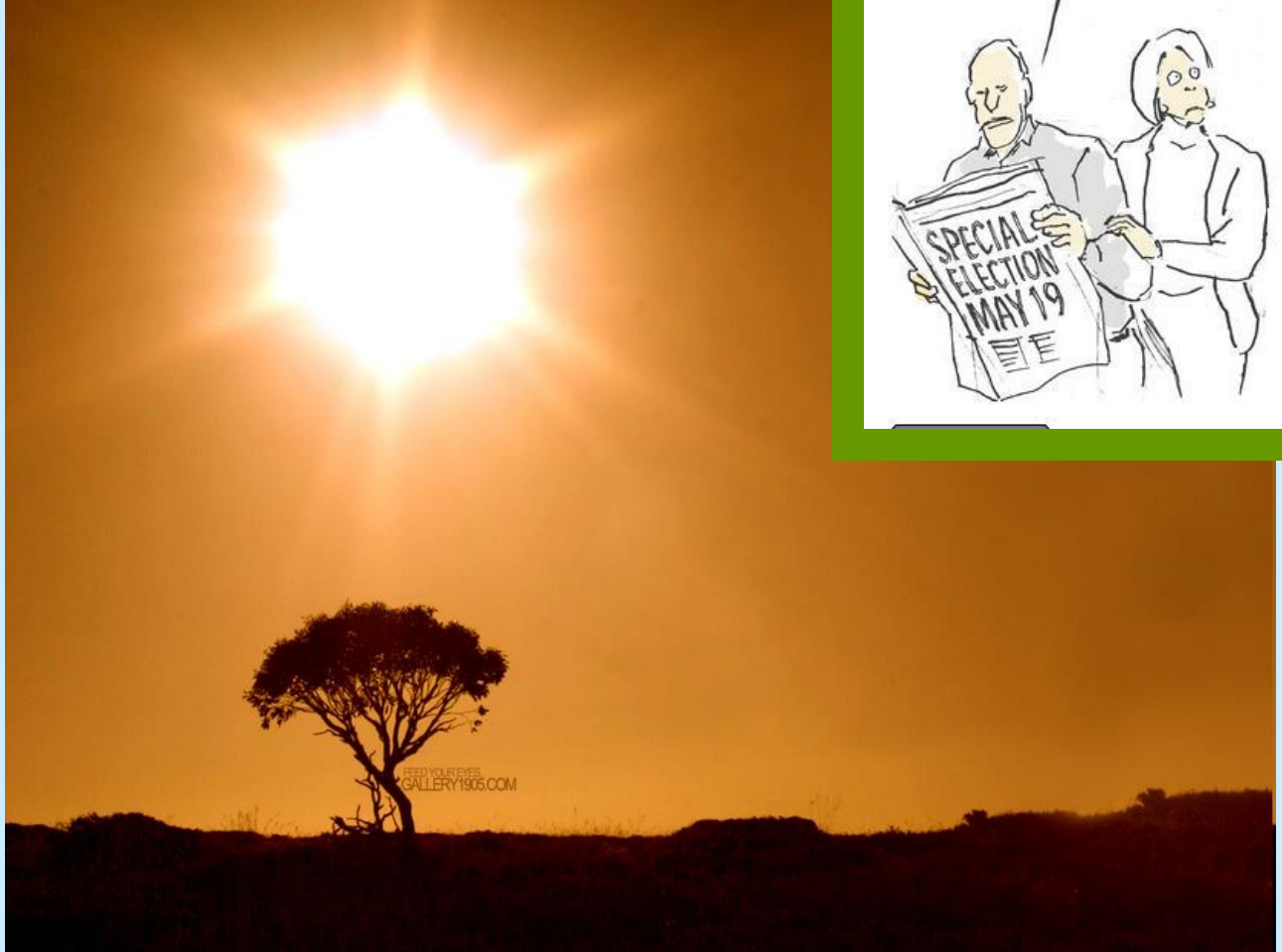


**Long-term solution proposed by governor  
along with his January 2008 budget message:**

# Rainy Day Fund



## Caveat Voter



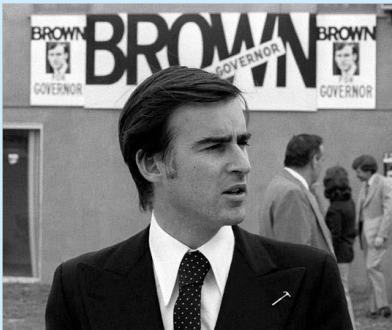
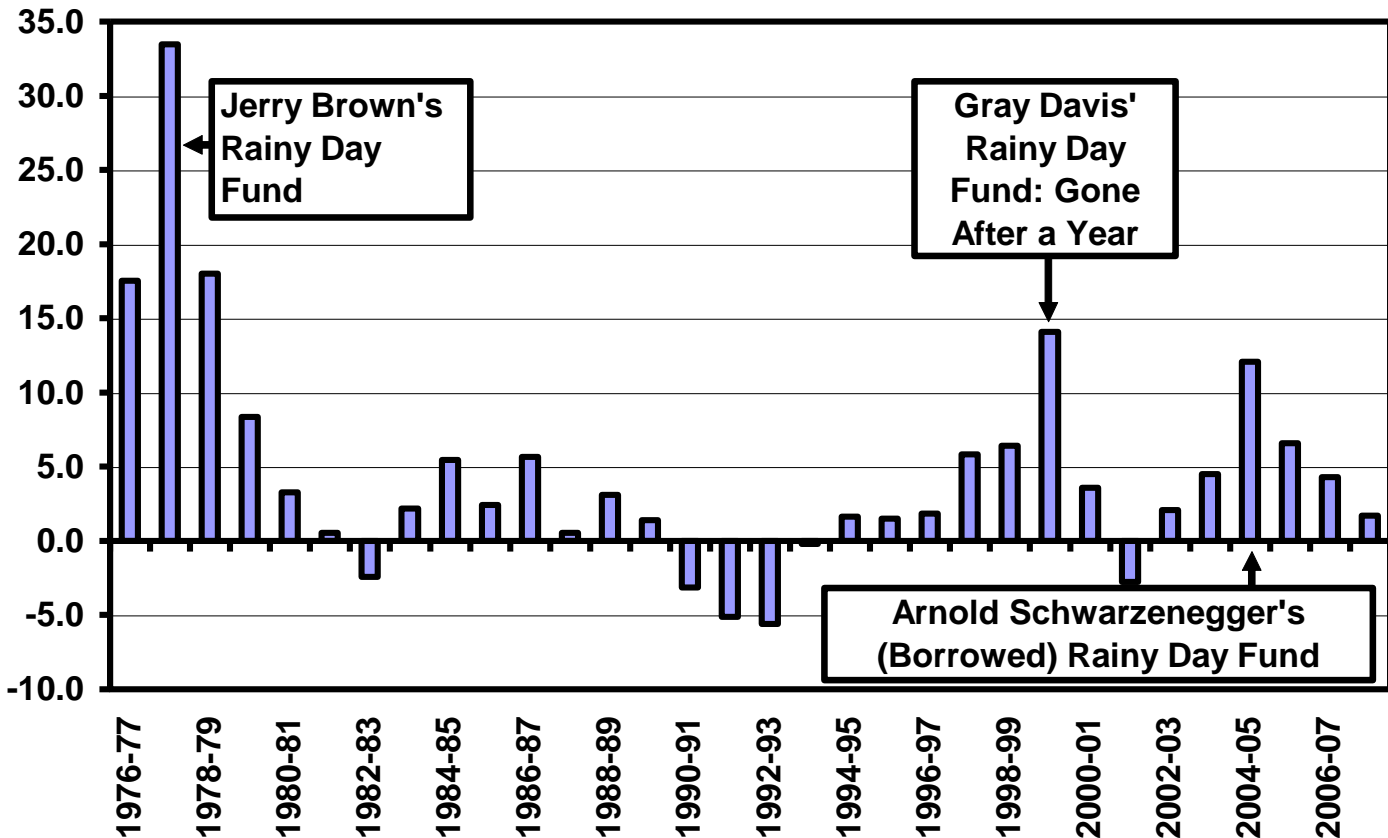
**You can only accumulate a rainy day fund when the Sun is shining. What we could have done in the past doesn't fix today's problem.**



**The rainy day fund the governor would like to mandate (about 1/8th of the GF) is roughly what Gray Davis had at the dot-com peak.**



## End of Year GF Reserve as % of Expenditures



# May Special Election

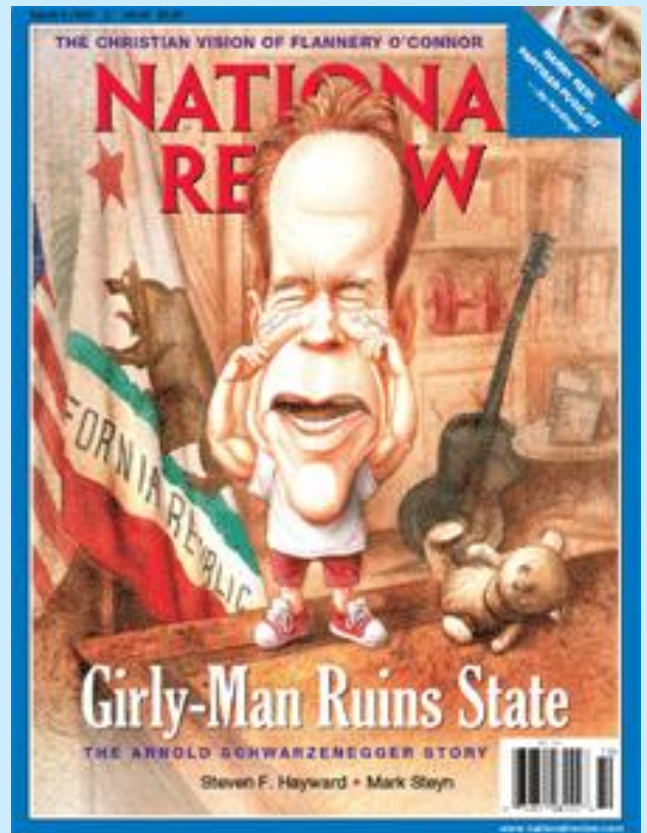


- **1A: Spending Cap and Rainy Day Fund with Tax Extension**
- **1B: K-14 Pay Back 2011-12 and Beyond**
- **1C: Borrow Against Lottery**
- **1D: Redirect First-5 Early Childhood Tobacco Funds from Prop 10 of 1998**
- **1E: Redirect Mental Health Funds from Prop 63 of 2004**



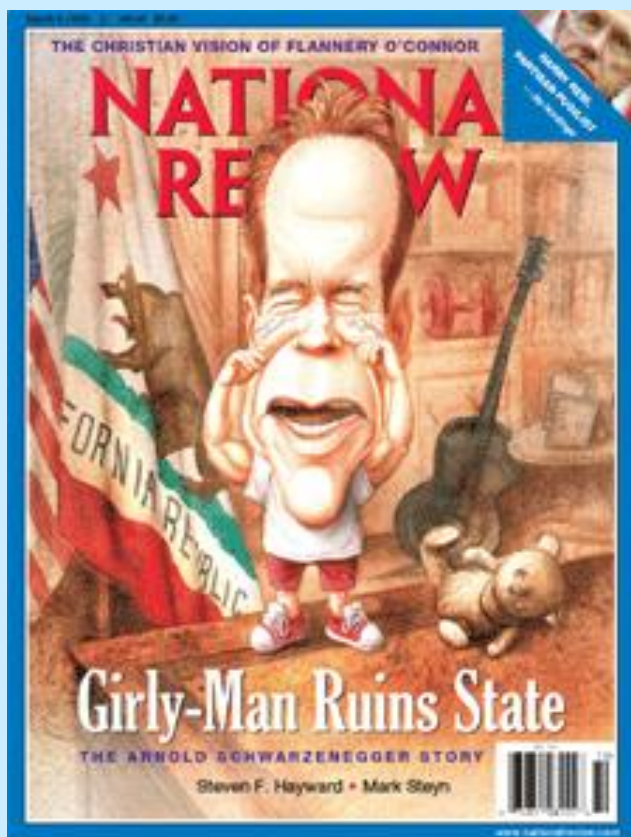


# Revolt on the Right





# Revolt on the Right







THE CALIFORNIA VOTER



**COPE**



**HOPE**

**Stimulus Funds for California?**





**COPE**



**HOPE**

**Stimulus Funds for California?**





# California's State Budget



*Daniel J.B. Mitchell*  
*March 24, 2009*